Negotiations, Ryanair-style

Case study

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This case was written by Adrian Borbély, IÉSEG School of Management’s International Center on Negotiation (ICON). It is intended to be used as a basis for class discussion rather than to illustrate effective or ineffective handling of a management situation. The case material was compiled from published sources and generalized experience.

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Negotiations, Ryanair-style

“Air transport is just a glorified bus operation.”
Michael O’Leary, Ryanair CEO, BusinessWeek Online, September 12th, 2002

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Ryanair has been the most profitable airline in Europe over the past decade. After they transposed the US Southwest Airlines’ model in the 1990s, they became the first true no-frills European airline. As this case will demonstrate, the paradox between its positioning on the ultracompetitive European market as a super low-cost airline, which offers ridiculously low fares to its passengers, and its incredible financial health may be explained, in a large part, by the specific approach it has taken toward negotiation and the results of these efforts.

Ryanair offers, for two reasons, an interesting field to observe relationships between a company’s strategic positioning and its negotiation practices. First, in total coherence with its management style, Ryanair takes advantage of its market power (some would say “domination) in its negotiations with key external stakeholders. Second, the airline may owe its financial health more to the outcome of its key negotiations than the result of its air operations. In doing so, in terms of negotiation theory, Ryanair also offers a good example of negotiating at the boundary between integrative and distributive bargaining. After presenting the company and its approach to stakeholder management, two sets of negotiations will be addressed: with aircraft manufacturers and with airport operators.

1. **The company: Ryanair**

Ryanair was founded in 1985, as a one-route operator between South-Eastern Ireland and London. After a rather bumpy start and a repositioning in the early 1990s, Ryanair has experienced constant growth, despite the global downturn in air travel that followed the events of September 11th, 2001. In particular, it has taken full advantage of the 1997 deregulation of the EU airspace under which any European airline can fly out of any point in Europe, even if it is not located in their home country. Ryanair’s 2013 figures are shocking: more than 80 million passengers transported (12% of the region’s short haul market); a fleet of 305 aircrafts that operates every day around 1.500 flights on a network of 188 airports across 30 countries (EU, Montenegro, Morocco, Norway and Switzerland). Ryanair aims to transport 120 million passengers per year by 2022, which would make it by far the largest European airline.

While legacy carriers keep posting losses and announcing restructuring plans, Ryanair posted in September 2013 a record yearly after-tax profit of 602 million euros\(^1\). In comparison, its main competitor, the British low-cost Easyjet, claims 61 million passengers, with generally less glorious results, although they posted an unprecedented profit of 570 million euros in September 2013 (a 54% increase compared to 12 months earlier)\(^2\). Other European low-cost carriers include Norwegian, Vueling (Spanish – belongs to IAG, the British Airways / Iberia group), Transavia (Dutch and French – Air France / KLM Group) and Wizz Air (Polish and Hungarian).

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\(^1\) [http://www.ryanair.com/doc/investor/present/H1_Results_2014_presentation.pdf](http://www.ryanair.com/doc/investor/present/H1_Results_2014_presentation.pdf)  
Ryanair’s strategy is based on pushing cost-killing to its limits, in order to make profits while offering the lowest fares on the market. If we consider that 60% of an airline’s costs are fixed, Ryanair is working hard to demonstrate what is possible on the remaining 40%, both in its management and negotiation practices\(^4\). In doing so, it profoundly impacts the short-haul airline market across Europe and probably beyond.

For this case study, Ryanair was not chosen simply because it is a major airline but mostly because its CEO and key strategist, Michael O’Leary, appears to be expert in the use of the company’s dominant position to extract value in negotiation or to deny other stakeholders any room to negotiate. In other words, hard-bargaining is Ryanair’s signature style, both in management and negotiation, with the constant use of a take-it-or-leave-it approach made possible by its position on the market. Some of Ryanair’s management practices are described in the following section in order to address the coherence of its internal vs. external relationship management practices. Negotiations with key external stakeholders will be addressed in sections 4 and 5.


Table 1: terrains for negotiation (or lack thereof) in Ryanair’s operations

<table>
<thead>
<tr>
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2. **Ryanair management practices: no room to negotiate**

Ryanair has adopted a very harsh (some would say “brutal”) approach toward its personnel, clients and operations. The company opted for a full-fledged cost-killing approach, which maximizes financial performance, as opposed to a more relationship-oriented stakeholder approach. Compared with other airlines, working conditions and customer relations are terrible. Putting ethical considerations aside, these practices are presented as a contextual introduction to the company’s external negotiation practices.

- **Personnel:**

Ryanair’s personnel is placed under the very liberal Irish employment law, despite the fact that most staff are based outside Ireland. Ryanair is here taking advantage of a grey zone in European labor laws and the company is currently facing legal actions for illegal work in various places. In 2013, in France, Ryanair was fined 9 million euros for overlooking the rules of French employment laws and not paying social contributions for its employees based on the French territory\(^5\).

Ryanair has done everything in its power to prevent the formation of unions among its staff, thereby restricting collective negotiation and ensuring their position of power at the job conditions discussion table. Pilots and stewards risk disciplinary action for communicating about their work environment. Ryanair has been able to keep its personnel costs very low by using temp workers, maxing out the crews’ flying times, not paying their time on the ground (e.g. in preflight briefings or during turnaround) and having job applicants pay for their training and uniform. Salaries are kept so low that cabin crews are sometimes paid less than the local minimum wage. Ryanair repeatedly stated that, if allowed, it would reduce cockpit crews to one pilot only (instead of the currently mandated crew of two). Disgruntled staff members are simply invited to apply for positions in other airlines, which is ironic, since these are more often laying-off than recruiting.

- Customer service:

Ryanair dispatches a similarly harsh approach toward its passengers, restricting customer service to its bare minimum. Seldom do airlines negotiate with their customers, especially those paying low fares; it remains that Ryanair puts lots of pressure on its passengers, up to imposing ridiculous fees to its captive clientele (e.g. 70€ for printing one’s boarding pass at the airport). As in any no-frills airline, customers get transported from point A to point B, everything else is charged: checked luggage, onboard food and beverages, priority boarding, exit row seats, etc. Ryanair also insinuated it would charge for toilet use if it were technically feasible. Prices are also held down by avoiding intermediaries: until recently, tickets were sold only through the company’s website, thereby avoiding costly agreements with travel agencies and tour operators. Unhappy passengers are not cared for, leading to numerous smear campaigns on social networks (as we will see, such negative publicity is considered as useful public relations at Ryanair).

- Operations:

In order to minimize costs, airlines cannot negotiate the price of jet fuel, which is indexed on the oil market price. Contrary to industry practices, Ryanair refuses to impose fuel surcharges on its passengers. Therefore, the only way for them to save on fuel is to request pilots to fly with fewer reserves. Carrying fuel adds weight to the aircraft (and hence increases fuel burn) so less fuel in the tanks means less fuel consumption. This has led Ryanair to be criticized on safety grounds when pilots were forced to declare fuel emergencies to get priority landing at diversion airports during severe weather events\(^6\). Besides these and other minor incidents, it is worth noting that Ryanair has had no major accident (i.e. with fatalities) since its inception in 1985.

Another way for an airline to generate revenue is to maximize daily aircraft usage. Ryanair manages to turn around its aircrafts in 25 minutes; this means that during most lay-overs, there are 25 minutes between the inbound flight’s planned arrival time and the outbound flight’s official departure time (vs. at least 45 minutes at other airlines). This puts lots of pressure on ground services (e.g. refueling), who need to intervene quickly, passengers who are invited to disembark and embark at a fast pace, and crews who need to clean the cabin and prepare for the next flight. As a consequence, a Ryanair

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mid-range aircraft is in the air on average 11 hours per day (vs. around 8 hours for their Air France / KLM equivalents).

Ryanair’s competitive behavior is highly visible in its management practices toward its personnel, customers and operations. Coherently, it has adopted a similar approach toward its key external stakeholders and negotiation partners. Before diving into individual negotiation settings, a theoretical detour appears necessary to better understand Ryanair’s practices when it comes to power in negotiation.

3. **Power instruments in business negotiations**

Conceptually, negotiation practices are generally categorized as integrative or distributive (e.g. Lewicki et al., 2010). Integrative negotiation is a joint problem-solving exercise through which parties co-create value by going beyond stated positions to try and find mutually satisfying deals (Fisher et al., 1991). Conversely, in distributive negotiation, parties simply aim to capture most of what lies in-between their positions. These two dynamics rely on two very different philosophies. In the former, the other party is considered as a partner, with whom one should develop long-term relationships; it is about exploring and satisfying underlying interests, knowing that the other party needs to be satisfied for a deal to be concluded. In the latter, the other party is viewed as an opponent, from whom to extract as much value as possible, since whatever they take, comes out of our pocket.

Most negotiations entail both integrative and distributive elements and the frontier between the two is not clearly drawn. Integrative value creation aims to maximize the value to be shared among the parties, whereas distributive bargaining serves to capture as much of said value as possible. Theoretically, negotiators should therefore create value before distributing it in order to reach optimal solutions (Lempereur & Colson, 2010). Adopting an integrative approach, i.e. trying to satisfy everyone’s interests, does not mean value will be evenly distributed at the end: one may very well claim most value, leaving just enough for the other party to accept the deal.

In both negotiating types, one’s best alternative to a negotiated agreement (BATNA) acts as the tipping point at which a proposition becomes acceptable: one should only sign a deal if it is more satisfying than his/her favorite alternative, defined as the best one can do independently of the negotiation partner. The BATNA also serves to establish the power distribution at the table: the party with the better alternative needs the deal less, and may hence adopt a more aggressive stance (Pinkley, Neale & Bennett, 1994). This may include flagging one’s BATNA as a threat to end negotiations or using any other kind of power tactics aiming to claim value. This is generally not advised by proponents of the integrative negotiation approach, as it may kill creativity, hurt the relationship among the parties and consequently eliminate potential gains for all of them. It is however considered
a valid move in distributive discussions (e.g. purchasing practices of large retail platforms), in which only the immediate quantitative result counts. The fact that most negotiations are both integrative and distributive makes the issue more complex: the extent to which such BATNA tactics are acceptable generally relies on one’s perception of the relevance of the parties’ long-term relationship.

The notion of power asymmetry is mostly missing from integrative negotiation teachings, which generally assume that negotiation partners are on an equal footing, and hence that respective power and influence have little place in the equation. The fact that parties need one another to satisfy their interests would erase all power dynamics between them. Reality proves otherwise: most negotiators, when given a chance, would make use of their power position (Lewicki et al., 2010; chap. 7). It is therefore not about whether we need one another but about who needs the partner more.

Observing its negotiations practices, as described in the following sections, Ryanair provides a good example of how the constant use of BATNA-related power tactics may lead to financial gain, while still going through negotiations that may be characterized as integrative, as the interests of the counterparts are taken into account. The fact that negotiation partners sign deals that are financially unfavorable to them, without being coerced into them, proves that they find some value in these agreements. The question is therefore not whether we consider Ryanair’s negotiation practices ethical (this is widely discussed in the media, corporate circles and European political spheres); they stand at the root of the company’s spectacular financial results over the past decade.

On a related note, negotiations are usually held in private. It is therefore rare to see negotiation tactics exposed in the press. However, Ryanair’s public relations\(^7\) strategy, supported by Michael O’Leary’s colorful personality, consists in attracting as much public attention as possible, so that to obtain as much free ad space as possible. For example, Ryanair regularly claims that it wants to add extra seats onboard its aircrafts, either by reducing the amount of toilets onboard (from three to one) or by flying passengers standing instead of sitting. It also is said to consider offering 10 euro no-frills tickets from the EU to the US. The airline has earned lots of free publicity over the years: as Michael O’Leary puts it, “short of committing murder, negative publicity sells more seats than positive publicity\(^8\).” Communication and negotiation strategies are therefore intertwined with Ryanair: as it is one of the companies that appear the most often in the media\(^9\), one may easily find lots of commentaries about their negotiations, that originate either from the airline or its sometimes disgruntled negotiation partners.

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\(^7\) Public relations may be defined as managing a company’s information flow toward the public; it may include exposure through topics of public interest and news items that do not require direct payment (Grunig & Hunt, 1984; Seitel, 2007)

\(^8\) Michael O’Leary, speaking to Marketing Magazine, August 2nd, 2013

\(^9\) For example: between Jan 1\(^{st}\), 2010 and July 1\(^{st}\), 2014, Ryanair was quoted in 807 articles in the Financial Times, which is an average of one article every two days over four and a half years.
4. **Negotiation setting #1: negotiating for new aircrafts**

Evidently, airlines use aircrafts to perform their main task, which is transporting people from point A to point B. Companies such as Ryanair, who rely on airliners with around 180 seats, currently have a choice between two manufacturers and two models: the European Airbus A320 and the American Boeing 737-800. Two competitors are to appear soon, the Chinese COMAC C919 (first flight expected in 2015) and the Russian Irkut MS-21 (first deliveries expected no earlier than 2017).

Negotiations are highly complex; to simplify, clients need to choose an airframe, engines (they usually buy more than immediately needed, to have spares) and interior settings (seats, luggage compartments, galleys, etc.).

In the case of Ryanair, the most interesting negotiations take place with the airliner manufacturers. Boeing and Airbus, which currently enjoy a duopoly situation for jets carrying more than 135 passengers, are in a raging war for profit and total yearly orders. Low-cost carriers such as Ryanair are strategic customers, as they operate many airframes of relative young age, so that to minimize maintenance costs and aircraft unavailability times (Ryanair’s average fleet age is about 5 years, one of the youngest on the market). This forces them to place orders for new airplanes relatively frequently.

Ryanair currently operates a fleet of 305 Boeing 737-800. Each aircraft seats 189 passengers in an all-economy setting, with basic, non-reclining, limited pitch seats. The fact that they only operate one type of aircraft is significant: fleet commonality is a source of significant savings for an airline (aircrafts are interchangeable; all crews can fly all aircrafts on the fleet; etc.).

On June 19th, 2013, after years of discreet negotiations, Boeing and Ryanair announced a massive contract for 175 new 737-800, for a value of 15.6 billion dollars at catalog price. Ryanair’s stated objective is, by 2019, to retire 105 of its oldest airframes and grow the fleet by 70. Airlines never pay the list price but the exact amount of the transaction is kept secret, for obvious precedent-setting reasons. In this case, analysts claim Ryanair may have paid less than half the catalog price. Such a low price may be explained not only by the sheer size of the order (175 planes at once is huge) but

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10 Both models are currently considered “paper airplanes”, as none has flown yet; actually, both have, for now, only been ordered by companies from their home countries.
11 Data from www.planespotters.net
12 Once rated for one aircraft type, it is relatively easy to be rated for others from the same manufacturer, as many systems are similar; it is much more complex to get rated to fly aircrafts from different manufacturers (say Airbus and Boeing).
also by the fact that in 2013, Boeing was facing technical difficulties and important delivery delays on its new 787 Dreamliner airplane and may have been desperate for some good news to publish to reassure shareholders.

Before the order was officially announced, the wildest rumors circulated. Did Ryanair engage in in-depth discussions with Airbus? Ryanair signed a contract to participate in the development of the Chinese C919\(^{15}\); did they seriously consider buying such a prototypical product? Exactly how many aircrafts are we talking about (numbers as high as 300 floated around)?

In these negotiations, the interests for the key stakeholders were the following:

- **For Ryanair**: get the best price and the lowest possible operating costs, meaning Boeing may have had an edge due to fleet commonality, not to mention that, at that time, a high-density 737-800 could seat 9 more passengers than its Airbus equivalent\(^{16}\). Furthermore, Ryanair is interested in getting quick deliveries.

- **For Boeing**: keep a good customer, which has been loyal so far and may keep on ordering similar aircrafts in the future (again because of fleet commonality); increase sales numbers, so that to win the yearly order race vs. Airbus; sell at a profit (however small); score a large order in difficult times (Dreamliner issues with batteries, etc.).

- **For Airbus**: if granted the contract, make a profit (however limited); if the contract goes to Boeing, drive prices down, in order to slow Boeing down in the profit race.

- **For the new entrants (COMAC and Irkut)**: if possible, score a first major contract on their competitors’ territory.

The history between Ryanair and Airbus has been chaotic. Despite being very close to signing with Airbus in 2002, Ryanair eventually contracted with Boeing, leaving Airbus executives quite bitter\(^{17}\). Michael O’Leary has then bashed Airbus by claiming that no airline can generate money off their products. Later, he stated that there are very little technical differences between Airbus, Boeing and COMAC’s products\(^{18}\). By saying so, he was is framing the negotiation purely on the economics of the to-be-acquired airplanes and stating he would give a chance to other manufacturers than Boeing, should they align on the financial terms.

Ryanair’s strategy is the perfect example of flagging the BATNA in order to extract value from one’s counterpart in a negotiation. The idea is to negotiate, or pretend to be negotiating, with two

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\(^{16}\) Maximum low-cost configuration on an A320 is 180 seats, vs. 189 seats for a Boeing 737-800 (source: Airbus and Boeing websites). To increase maximum seating, airliners have to be modified with the addition of extra doors to keep emergency evacuation times low. Airbus has been refusing to increase the A320 seat count until a 189-seat option was announced in January 2014 (source: [http://www.flightglobal.com/news/articles/airbus-looks-at-exit-options-for-189-seat-a320-394780/](http://www.flightglobal.com/news/articles/airbus-looks-at-exit-options-for-189-seat-a320-394780/))


\(^{18}\) Fortune magazine, November 18th, 2013
competitors in order to drive prices down. Any advantage granted by one supplier has to be reciprocated or topped by the other one; if not, the candidate supplier runs the risk of losing the deal altogether.

Evidently, such a strategy only works when one has a serious alternative. In a duopoly, in order not to lose the benefit of such a positioning, one therefore needs to be cautious about relationships and avoid publicly stating that one product is superior to the other one. Considering O’Leary’s PR, one may therefore speculate about whether, on the latest deal, Ryanair discussed with Airbus at all and how far those discussions went. Eventually, Michael O’Leary conceded that Airbus was not “hungry enough” to offer Ryanair the low prices they were expecting19.

One may therefore assume that Ryanair’s position in their discussions with Boeing depended on them giving serious consideration to a competing product. The tainted relationship with Airbus could have put Ryanair in a difficult position viz. Boeing. This may explain why, they engaged in contractual relationships with the Chinese COMAC, pledging to help them develop their rival product20. The credibility of the threat to see Ryanair give up the 737 for an Airbus product, or an airplane under development in China or Russia, certainly impacted their bargaining power toward Boeing.

5. Negotiation setting #2: airport fees

Airlines pay fees each time one of their aircrafts lands on an airport. The fee depends on aircraft size, time of the day (peak vs. non-peak hours), requested services (e.g. a gate), number of passengers and/or time spent on the ground21. Ryanair does not use gates (all their aircrafts are equipped with retractable ladders) and, as we have seen already, they spend as little time as possible on the ground.

Ryanair’s strategy is to fly to smaller airfields, usually way out of cities they serve, such as Beauvais (85 kms from Paris), Treviso (40 kms from Venice), Västerås (100 kms from Stockholm), etc. This has two objectives: firstly, these airports have less traffic and hence less risks of congestion (meaning fewer risks of delay and less time spent on the ground). Most importantly, as they are less demanded and offer more basic services, they charge lower landing fees.

A regional airport is a public investment, managed either by the local public authorities or the chamber of commerce. It serves to attract tourism and economic activity in the form of corporate headquarters or logistic platforms. Since all “mid-size” cities want to have an airport, there are today in Europe lots of platforms with limited traffic. This is especially true in France, whose air system is

19 http://www.latribune.fr/entreprises-finance/services/transport-logistique/20130116trib000742941/ryanair-airbus-n-a-pas-de-besoin-de-nos-commandes-ils-n-ont-pas-assez-faim.html
21 See for example the fee structure at Aéroports de Paris (Charles de Gaulle, le Bourget and Orly airports): http://www.aeroportsdeparis.fr/ADP/Resources/e2956f7f-9ef9-472f-86b6-b64e551bced2-ADPTarifs2013VA.pdf
concentrated around the two Paris airports, who account for 56.4% of the country’s air travelers. Also, in most Western Europe, high-speed trains fiercely compete with airlines; they have reduced interest in air travel in many European regions (e.g. in France, TGV has almost wiped out the Paris-Lyons and Paris-Strasbourg air routes). This being said, in 2013, there remained 17 airports in mainland France which handle more than one million passengers a year.

It is more complicated for the following set of French 17 airports, who welcome between 200,000 and 650,000 passengers per year. To be attractive, such an airport needs to be served by at least one major airline. At the same time, there are few airlines interested in serving such secondary platforms. In France, those that come to mind are the flagship airlines’ regional subsidiaries (e.g. HOP for Air France), EasyJet, Ryanair and the other European low-cost carriers. Ryanair is the only one which links two secondary airports: their competitors rather fly between a major airport and a secondary one. For a secondary airport operator, service by Ryanair is an asset, not only because it increases traffic but it creates direct gateways to distant European cities (e.g. Brussels, Dublin, London, or Porto). For Beauvais, which was the first French airport served by Ryanair in 1997, numbers are telling: traffic has been multiplied by 10 to reach 4 million passengers a year, 1,000 direct jobs have been created and this could have provided the area with economic benefits up to 65 million euros.

Negotiations between Ryanair and a secondary airport will start once the airport proves it is capable of handling aircrafts of Ryanair’s size by validating a set of drastic specifications in terms of runway length, safety equipment such as ILS (Instrument Landing Systems), emergency response vehicles, etc. Ryanair’s operations also require large enough parking spaces and terminal facilities. Once this is ascertained, real negotiations may begin. For the airport, a key interest lies in the amount of scheduled flights per week, as well as the number of destinations. For the airline, it is about getting the best price, knowing that fees are fixed in part by the State (landing taxes) and in part by the airport operator (landing fees per se, plus service fees: ground services, etc.). Price being the central negotiation point, negotiations appear mostly distributive in nature.

Ryanair is known for pushing for the absolute best conditions. When landing fees remain too high, they do not hesitate to request some form of compensation (some would say “subsidies”), to launch or maintain operations. A manager at the Rodez Airport (South of France), which has Ryanair flights to Porto, Brussels, London and Dublin, leaked that they pay 7 euros per passenger (i.e. around 525 K€ per year) to Ryanair’s communication agency, officially to promote tourism in their region by highlighting it on Ryanair’s website. Similarly, Michel Boutant, President of the French department

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23 Source: wikipedia.fr

24 Source: Envoyé Spécial documentary on France2 TV channel, May 9th, 2013, available on Youtube ([http://www.youtube.com/watch?v=poMAs_4UtfA](http://www.youtube.com/watch?v=poMAs_4UtfA))

25 La dépêche du Midi, 10/04/2003
of Charente, was asked to pay Ryanair’s communication agency 925 K€ over three years, against a promise from Ryanair that they will operate at least five years on the Angouleme airport.

Although they have the same impact, these are generally considered not as direct subsidies (they would be forbidden under EU law) but indirect fees, framed within a “commercial agreement”, comparable to retro-commissions imposed by large retailers on their suppliers. The European Court of Justice tends to consider such agreements legal, despite challenges by local courts and, more recently, by the EU Commission itself. Nowadays, they are under scrutiny, both at State and EU level, on the ground that they may distort competition, as claimed by competing airlines.

To get the best conditions, Ryanair goes further. First, they do not hesitate to renegotiate agreements with airports. In Angoulême, after two years only, Ryanair requested an extra 175 K€, allegedly to cover unforeseen costs. Feeling blackmailed, the airport refused and Ryanair left earlier than the contractual five years. The company has also been known to negotiate with neighboring platforms, in order to force them into the most advantageous conditions. For example, in 2011, when the German government created a new airport tax that Ryanair was not ready to pay, they threatened to drop Baden Airpark, Baden-Baden’s airport, and replace it by its French neighbor, Strasbourg Entzheim 75kms away. Ryanair signaled they would rather transfer their activity to the other side of the border than incur any additional cost. Finally, fearful of seeing Ryanair go, the Land of Baden-Württemberg agreed to pay this federal tax for them.

In such situations, owing to the EU open skies provisions and Ryanair’s network volatility, Ryanair use its dominant position against airport operators. There are few airlines willing to use such mid-size platforms, vs. too many airports searching for scheduled air service. This imbalance enables Ryanair to play one airport against the others and extract so much value from their financial negotiations with them that they eventually get paid to service certain platforms (instead of the opposite).

The result of these negotiations is far from insignificant: according to some accounts, airport contributions could add up to around 700 million euros per year. This figure is larger than Ryanair’s yearly profit (602 million euros in 2013). This means that contrary to Michael O’Leary’s discourse, Ryanair’s air operations may actually be loss-making, only compensated by fees paid by airports. Since EU authorities are currently investigating the very legality of such financial arrangements, turbulence may lay ahead for Ryanair.

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26 Envoyé Spécial, op. cit note 24
28 Envoyé Spécial, op. cit note 24
29 20 Minutes – Strasbourg, 02/09/2011
30 In 2008, this amount was about 660 million euros, according to French newspaper le Figaro: http://www.english.rfi.fr/economy/20100312-air-france-files-complaint-against-ryanair
6. Conclusion: playing the game better than your competitors

Ryanair appears to be managing their external environment to their advantage. After securing alternatives, they apply their dominant position to capture so much value in their negotiations that it contributes almost exclusively to their profitability. At the same time, these negotiations respond to their interlocutors’ key interests: having a job for staff, flying cheap for passengers, providing service to their airports for local public authorities, etc. A long-term perspective leads to question the durability of such a strategy, which rests on constrained resources (e.g. job market for airline personnel), clients’ understanding, cost differentiation, the airline’s flawless safety record (what if a fatal accident occurs?) and the legality of its financial relationships with airports operators and local communities.

Taking a broader perspective may reveal a less glorious picture. Ryanair’s strategy includes stomping on lots of people’s toes, starting with Airbus, European legacy carriers (especially British Airways) and the European and national regulators, responsible for air fees, taxes and others administrative constraints. The PR that consists in criticizing regulators, airline manufacturers and legacy carriers, while interacting and negotiating with them, may earn the company lots of free publicity; it has also drawn lots of disgruntlement in people who may have true obstruction power toward Ryanair. This is all the more true that most of these actors are interrelated around the States, who often own shares in legacy carriers, have interests in their territories’ industrial development (Airbus parts are produced all over Europe) and have lots of voice in Brussels.

The EU commission has prevented Ryanair from purchasing Aer Lingus, the Irish flag carrier, based on anti-trust provisions in the EU treaties: such a merger would put the new company in an almost monopolistic situation out of Dublin airport. Because of its aggressive PR, Ryanair has earned the privilege of being “under surveillance”. Despite their flawless safety record, Ryanair suffers from more “random” safety inspections than their non-low-cost competitors. Negative publicity, which has granted Ryanair lots of free ad space, may eventually turn against them. The European Commission’s reflections on the legality of deals between Ryanair and the airports and their project to harmonize airport landing fees, thereby limiting Ryanair’s competitive edge drawn from their use of secondary platforms, may force Michael O’Leary to redefine Ryanair’s business plan altogether in a not-so-distant future.
7. **Questions for discussion:**

1) In a supply duopoly setting (such as Airbus and Boeing on mid-range aircrafts), what are the sources of and possible obstacles to the purchasers’ bargaining power to drive prices down?

2) How can you explain the position of Airbus in the recent negotiations with Ryanair? They seem not that interested in selling airframes to them, while not explicitly refusing to negotiate with them. Do you find this coherent?

3) Would you rate Ryanair’s methods toward airport operators as ethical? What are the benefits and risks attached to such a negotiation strategy?

4) In general, is the diffusion on mass media of information regarding ongoing negotiations something you would recommend and, if so, under which circumstances? What specific pieces of information do you think should never be shared outside the negotiation room?

5) To keep on increasing their bargaining power, do you think Ryanair should go further in their hardline approach to negotiation? Or would you say that turning back and adopting a more relational strategy could be beneficial regarding their current situation?

6) Your organization is about to negotiate an important deal with Ryanair and one of your colleagues is soon to meet with Michael O’Leary or one of his close lieutenants. What advice would you give him/her as to how to address negotiations with Ryanair?

**References**


